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CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

HIGHLIGHTS

- Benefiting from active brand promotion and marketing, revenue increased by 6.6% to RMB27.26 billion. Gross profit margin was enhanced continuously and increased by 1.8 percentage points year-on-year to 33.7%.
- Mengniu constantly strives to optimize its product mix with the aim of guiding the premium product consumption trend as well as promoting consumption of nutritious and healthy dairy products. During the period, *Milk Deluxe* continued to lead the high end market and Mengniu maintained leadership in liquid milk and chilled dairy product market with the largest market share.
- The first in China to expand the application of LIMS (Laboratory Information Management System) and SAP system, Mengniu has been able to offer intelligent and systematic quality assurance throughout its entire industrial chain. It can track information forward and backward at all quality control points, allowing it to safeguard quality at every stage in the industrial chain.
- By bringing in advanced international resources and technologies, Mengniu has continued to strengthen its milk sources foundation and meet international standards. During the period, the percentage of Mengniu's milk sourced from ranches and scaled farms reached 100%.
- As the official dairy product partner of Shanghai Disney Resort, Mengniu provides premium quality products to visitors to the resort from all over the world and has created an exclusive series of special delights for it.
- Mengniu strengthened its milk formula business with an optimized product mix. During the period, Mengniu and Yashili completed the acquisition of Dumex Baby Food Co., Ltd. ("Dumex China"), a specialist in infant milk formula, from Danone Group.

* For identification purposes only

The board (the “Board”) of directors (the “Directors”) of China Mengniu Dairy Company Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “Mengniu”) for the six months ended 30 June 2016, together with the comparative amounts. The interim results and condensed interim financial statements have been reviewed by the audit committee (the “Audit Committee”) and the auditors of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited	
		For the six months ended	
		30 June	
	<i>Notes</i>	2016	2015
		RMB'000	RMB'000
Continuing operations			
Revenue	4	27,257,154	25,564,409
Cost of sales		(18,075,749)	(17,421,599)
Gross profit		9,181,405	8,142,810
Other income and gains	4	169,963	177,611
Losses arising from changes in fair value less cost to sell of dairy cows		(22,285)	(6,912)
Selling and distribution expenses		(6,448,888)	(5,565,274)
Administrative expenses		(1,135,934)	(1,093,651)
Other expenses	5	(218,793)	(182,839)
Interest income		278,098	273,764
Finance costs	7	(151,460)	(134,616)
Share of profits/(losses) of associates		(154,555)	143,306
Profit before tax from continuing operations	6	1,497,551	1,754,199
Income tax expense	8	(313,030)	(321,343)
Profit for the period from continuing operations		1,184,521	1,432,856
Discontinued operation			
Loss for the period from a discontinued operation	9	–	(8)
Profit for the period		1,184,521	1,432,848
Attributable to:			
Owners of the Company		1,077,290	1,338,669
Non-controlling interests		107,231	94,179
		1,184,521	1,432,848

		Unaudited	
		For the six months ended	
		30 June	
	<i>Note</i>	2016	2015
			<i>Restated</i>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)			
Basic	<i>10</i>		
– For profit for the period		0.277	0.344
– For profit from continuing operations		0.277	0.344
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Diluted			
– For profit for the period		0.277	0.343
– For profit from continuing operations		0.277	0.343
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INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	For the six months ended	
	30 June	
	2016	2015
	RMB'000	RMB'000
Profit for the period	1,184,521	1,432,848
Other comprehensive income/(loss)		
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	11,177	(6,088)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	–	(11,519)
Income tax effect	–	3,098
	<hr/>	<hr/>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	11,177	(14,509)
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>		
Equity investments designated as fair value through other comprehensive income:		
Changes in fair value	(67,100)	(91,363)
	<hr/>	<hr/>
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	(67,100)	(91,363)
Other comprehensive loss, net of tax	(55,923)	(105,872)
Total comprehensive income for the period	1,128,598	1,326,976
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Attributable to:		
Owners of the Company	988,488	1,244,756
Non-controlling interests	140,110	82,220
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	1,128,598	1,326,976
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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2016 <i>RMB'000</i>	Audited 31 December 2015 <i>RMB'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		11,477,297	11,637,977
Construction in progress		1,592,229	900,939
Investment properties		30,372	20,078
Land use rights		967,522	888,680
Goodwill		6,569,075	5,850,599
Other intangible assets		1,998,479	1,731,018
Investments in associates		4,077,528	4,185,883
Deferred tax assets		394,969	307,534
Biological assets		345,381	289,823
Non-current financial assets		2,110,355	2,327,916
Long term prepayments		48,521	91,738
		29,611,728	28,232,185
CURRENT ASSETS			
Other current financial assets		6,902,914	5,255,273
Derivative financial instruments		–	10,944
Inventories		3,468,515	4,339,506
Trade and bills receivables	12	2,929,605	1,617,757
Prepayments, deposits and other receivables		2,201,662	2,158,884
Pledged deposits		747,809	722,402
Cash and bank balances		5,206,881	7,931,237
		21,457,386	22,036,003
Assets of disposal groups classified as held for sale	9	253,799	384,353
		21,711,185	22,420,356
CURRENT LIABILITIES			
Trade and bills payables	13	5,779,867	4,644,298
Other payables and accruals		4,789,448	4,989,524
Interest-bearing bank and other borrowings		6,403,893	6,080,751
Other loans		25,915	43,915
Derivative financial instruments		4,752	3,160
Deferred income		53,999	45,652
Income tax payable		196,932	153,367
		17,254,806	15,960,667
Liabilities directly associated with the assets classified as held for sale	9	13,234	15,708
		17,268,040	15,976,375
NET CURRENT ASSETS		4,443,145	6,443,981
TOTAL ASSETS LESS CURRENT LIABILITIES		34,054,873	34,676,166

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	3,768,505	4,969,511
Long term payables	42,164	68,399
Deferred income	383,843	303,116
Deferred tax liabilities	71,077	76,050
Other non-current financial liabilities	3,007,943	2,643,936
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Total non-current liabilities	7,273,532	8,061,012
	<hr/>	<hr/>
NET ASSETS	26,781,341	26,615,154
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EQUITY		
Equity attributable to owners of the Company		
Share capital	356,877	357,262
Treasury shares held under share award scheme	(432,678)	(415,762)
Other reserves	12,409,144	13,321,140
Retained earnings	9,950,889	8,873,599
	<hr/>	<hr/>
	22,284,232	22,136,239
Non-controlling interests	4,497,109	4,478,915
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TOTAL EQUITY	26,781,341	26,615,154
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Notes:

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The Company is an investment holding company and its subsidiaries are engaged in the manufacture and distribution of dairy products mainly in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the disclosure requirements of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

New standards and amendments adopted by the Group

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those in the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of the following new and revised standards effective as at 1 January 2016. The Group has not early adopted any other standard or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standards or amendments is described below:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of International Financial Reporting Standards ("IFRS"). Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income ("OCI"). The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

3. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- Liquid milk product segment – manufacture and distribution of ultra-high temperature milk (“UHT milk”), milk beverage and yogurt
- Ice cream product segment – manufacture and distribution of ice cream
- Milk powder product segment – manufacture and distribution of milk powder
- Others segment – principally the Group’s cheese and plant-based nutrition product business and trading business

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax from continuing operations is measured consistently with the Group’s profit/loss before tax from continuing operations except that interest income, finance costs, share of profits of associates, income tax expense, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude equity investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present the revenue, profit and certain asset and liability information for the Group's operating segments:

For the six months ended 30 June 2016 (unaudited)

	Liquid milk product RMB'000	Ice cream product RMB'000	Milk powder product RMB'000	Others RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers	23,761,520	1,703,333	1,660,036	132,265	27,257,154
Intersegment sales	369,487	59,854	–	105,508	534,849
	<u>24,131,007</u>	<u>1,763,187</u>	<u>1,660,036</u>	<u>237,773</u>	<u>27,792,003</u>
Reconciliation:					
Elimination of intersegment sales					<u>(534,849)</u>
Revenue from continuing operations					<u>27,257,154</u>
Segment results	1,696,982	37,719	(99,938)	(59,493)	1,575,270
Reconciliation:					
Interest income					278,098
Finance costs					(151,460)
Losses arising from changes in fair value less cost to sell of dairy cows					(22,285)
Share of losses of associates					(154,555)
Unallocated corporate expenses					<u>(27,517)</u>
Profit before tax from continuing operations					1,497,551
Income tax expense					<u>(313,030)</u>
Profit for the period from continuing operations					<u>1,184,521</u>
At 30 June 2016 (unaudited)					
Segment assets	29,734,653	2,522,625	14,871,161	1,438,308	48,566,747
Reconciliation:					
Elimination of intersegment receivables					(11,908,492)
Unallocated corporate assets					14,410,859
Assets related to disposal groups					<u>253,799</u>
Total assets					<u>51,322,913</u>
Segment liabilities	16,668,561	2,029,960	2,503,235	1,642,309	22,844,065
Reconciliation:					
Elimination of intersegment payables					(11,908,492)
Unallocated corporate liabilities					13,592,765
Liabilities related to disposal groups					<u>13,234</u>
Total liabilities					<u>24,541,572</u>

For the six months ended 30 June 2015 (unaudited)

	Liquid milk product <i>RMB'000</i>	Ice cream product <i>RMB'000</i>	Milk powder product <i>RMB'000</i>	Others <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue:					
Sales to external customers	21,940,946	1,644,268	1,783,488	195,707	25,564,409
Intersegment sales	299,468	109,649	24,197	143,866	577,180
	22,240,414	1,753,917	1,807,685	339,573	26,141,589
Reconciliation:					
Elimination of intersegment sales					(577,180)
Revenue from continuing operations					25,564,409
Segment results	1,924,679	57,951	27,201	(170,009)	1,839,822
Reconciliation:					
Interest income					273,764
Finance costs					(134,616)
Losses arising from changes in fair value less cost to sell of dairy cows					(6,912)
Share of profits of associates					143,306
Unallocated corporate expenses					(361,165)
Profit before tax from continuing operations					1,754,199
Income tax expense					(321,343)
Profit for the period from continuing operations					1,432,856
At 31 December 2015 (audited)					
Segment assets	26,601,192	1,896,127	14,331,373	1,324,122	44,152,814
Reconciliation:					
Elimination of intersegment receivables					(9,681,088)
Unallocated corporate assets					15,796,462
Assets related to disposal groups					384,353
Total assets					50,652,541
Segment liabilities	14,552,301	1,483,008	2,058,501	1,464,801	19,558,611
Reconciliation:					
Elimination of intersegment payables					(9,681,088)
Unallocated corporate liabilities					14,144,156
Liabilities related to disposal groups					15,708
Total liabilities					24,037,387

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts, and after eliminations of all significant intra-group transactions.

An analysis of the Group's revenue, other income and gains from continuing operations is as follows:

	Unaudited	
	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Revenue:		
Sale of goods	27,257,154	25,564,409
Other income and gains:		
Government grants related to		
– Recognition of deferred income	15,837	12,753
– Income and biological assets	39,052	56,768
Gain on disposal of a subsidiary	–	49,989
Net fair value gain on forward currency contracts and forward currency swaps	–	15,991
Gain on disposal of a disposal group classified as held for sale	29,127	–
Gain on disposal of items of property, plant and equipment	2,475	–
Foreign exchange gains, net	30,897	–
Others	52,575	42,110
	<u>169,963</u>	<u>177,611</u>
	<u>27,427,117</u>	<u>25,742,020</u>

5. OTHER EXPENSES

	Unaudited	
	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Provision for trade receivables and other receivables	6,873	3,249
Write-back of provision for trade receivables and other receivables	(21,740)	(31,262)
Write-down of inventories to net realisable value	57,535	23,808
Loss on disposal of items of property, plant and equipment	–	7,153
Donations	3,317	8,059
Educational surcharges and city construction tax	119,816	129,088
Net fair value loss on forward currency contracts	5,011	–
Foreign exchange losses, net	–	23,283
Others	47,981	19,461
	<u>218,793</u>	<u>182,839</u>

6. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	Unaudited	
	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Cost of inventories sold	18,073,165	17,421,634
Realised and unrealised fair value losses/(gains) of commodity future contracts, net	2,584	(35)
Cost of sales	18,075,749	17,421,599
Depreciation of items of property, plant and equipment	752,094	678,071
Depreciation of investment properties	2,474	1,586
Amortisation of land use rights	11,505	12,135
Amortisation of other intangible assets	18,080	8,798
Outsourcing expenses	169,136	258,452
Minimum lease payments under operating leases	95,846	95,741
Display space leasing fees	388,578	343,950
Employee benefit expense (including directors' and senior executive's emoluments)	2,113,927	1,871,540

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Unaudited	
	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Interest on long term payables	3,715	3,508
Interest on bank loans	84,068	64,711
Interest on US\$500,000,000 3.50% bond due 2018	61,810	57,730
Increase in discounted amounts of contingent consideration arising from the passage of time	275	4,814
Unrealised loss on interest rate forward contracts	1,592	3,853
	151,460	134,616

8. INCOME TAX EXPENSE

The major components of income tax expense in the interim condensed consolidated statement of profit or loss are:

	Unaudited	
	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current income tax		
Current income tax charge	405,438	439,940
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	<u>(92,408)</u>	<u>(118,597)</u>
	<u>313,030</u>	<u>321,343</u>

- (a) Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the period.

During the period, certain PRC subsidiaries were subject to tax concessions in accordance with (i) the PRC corporate income tax law; (ii) “The notice of tax policies relating to the implementation of western China development strategy”; and (iii) “The notice of preferential tax policy for preliminary processing of agricultural products”.

9. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

On 29 August 2013, Inner Mongolia Mengniu Founding Industry Management Co., Ltd. (“Founding”) acquired an additional 64% equity interest in Chengdu Mengniu Dairy Sales Co., Ltd. (“Chengdu Sales”) exclusively with a view to subsequent disposal within one year. Prior to the acquisition, Chengdu Sales was a 36% associate of Founding. The purchase consideration for the acquisition was in the form of cash of RMB5,763,000 paid on the acquisition date. Chengdu Sales engages in the dairy product trading business. The subsidiary was acquired for the purpose of the Group’s distributorship reorganisation. As at 31 December 2013 and 2014, Chengdu Sales was in the process of liquidation. On 15 December 2015, the liquidation procedures had been concluded. As such the net assets of Chengdu Sales had been classified as a disposal group as at 31 December 2013 and 2014, and the operating results of Chengdu Sales for the years 2013, 2014 and 2015 had been disclosed as a discontinued operation in the consolidated financial statements.

As at 31 December 2015, Yashili planned to dispose, in the next 12 months, of Scient (China) Baby Nourishment Co., Ltd. (“Scient China”) and Heilongjiang Yashili Dairy Co., Ltd. (“Yashili Heilongjiang”), which no longer operated as at 31 December 2015. Scient China and Yashili Heilongjiang were principally engaged in the production and sale of infant milk formula products and base powders, respectively. The proposed disposal is pursued in view of the key strategic deployment of Yashili in the next five years, with an aim to provide a highly efficient and modern production layout through attaining an optimised and reasonable production capacity. As at 30 June 2016, final negotiation for the sales was still in progress. As such, the net assets of Scient China and Yashili Heilongjiang were classified as disposal groups held for sale as at 31 December 2015 and 30 June 2016.

In addition, Danone Dairy (Shanghai) Co., Ltd. (“Danone Shanghai”), an indirectly owned subsidiary of the Group, intended to dispose, in the next 12 months, of a dairy processing plant it no longer utilised as at 31 December 2015, which includes a parcel of land use right, certain production lines and related buildings. As at 31 December 2015, final negotiation for the sale was in progress. As such the related assets of Danone Shanghai had been classified as a disposal group held for sale as at 31 December 2015. As at 30 June 2016, the sale had been concluded.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings per share

The basic earnings per share for the period is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

A reconciliation of the weighted average number of shares used in calculating the basic earnings per share amount is as follows:

	Unaudited	
	For the six months ended 30 June	
	2016	2015
	<i>Number of shares</i>	<i>Number of shares</i>
	(in thousand)	(in thousand)
		<i>Restated</i>
Issued ordinary shares at 1 January	3,923,977	1,958,591
Effect of shares repurchase and cancellation	(3,976)	–
Effect of bonus shares	–	1,942,963
Effect of share options exercised	655	1,614
Effect of shares purchased under share award scheme	(34,492)	(17,242)
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	<u>3,886,164</u>	<u>3,885,926</u>

(b) Diluted earnings per share

The diluted earnings per share is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during that period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A reconciliation of the weighted average number of shares used in calculating the diluted earnings per share amount is as follows:

	Unaudited	
	For the six months ended 30 June	
	2016	2015
	<i>Number of shares</i>	<i>Number of shares</i>
	(in thousand)	(in thousand)
		<i>Restated</i>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	3,886,164	3,885,926
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	55	4,564
Adjustments for share award scheme	–	9,522
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	<u>3,886,219</u>	<u>3,900,012</u>

11. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

During the six months ended 30 June 2016, the Company declared and paid final dividends of RMB0.14 (six months ended 30 June 2015: RMB0.28 (before bonus issue)) per ordinary share as proposed for the year ended 31 December 2015 to the shareholders of the Company.

12. TRADE AND BILLS RECEIVABLES

The Group normally allows a credit limit to its customers which is adjustable in certain circumstances. The Group closely monitors overdue balances. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the trade and bills receivables of the Group, net of provision for doubtful debts, based on the invoice date, is as follows:

	Unaudited 30 June 2016 <i>RMB'000</i>	Audited 31 December 2015 <i>RMB'000</i>
Within 3 months	2,549,477	1,389,573
4 to 6 months	269,008	94,581
7 to 12 months	49,548	50,881
Over 1 year	61,572	82,722
	2,929,605	1,617,757

13. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables of the Group, based on the invoice date, is as follows:

	Unaudited 30 June 2016 <i>RMB'000</i>	Audited 31 December 2015 <i>RMB'000</i>
Within 3 months	5,210,575	4,005,836
4 to 6 months	500,291	602,214
7 to 12 months	58,114	29,781
Over 1 year	10,887	6,467
	5,779,867	4,644,298

14. BUSINESS COMBINATION

On 31 May 2016, the Group acquired an 100% equity interest in Dumex China from Danone Asia Pacific Holdings Pte. Ltd. (“Danone”). Dumex China is mainly engaged in the manufacture and sale of infant milk formula products of Dumex brand. The acquisition was made as part of the Group’s strategy to expand its market share of infant milk formula products in Mainland China.

The fair values of the identifiable assets and liabilities of Dumex China as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB’000
Assets	
Property, plant and equipment	68,290
Construction in progress	7,473
Land use rights	41,527
Intangible assets	283,120
Inventories	64,945
Trade and bills receivables	63,887
Prepayments, deposits and other receivables	14,116
Cash and bank balances	112,071
	<hr/>
Total assets	655,429
	<hr/>
Liabilities	
Trade payables	(43,626)
Other payables and accruals	(302,909)
Current tax payable	(112)
	<hr/>
Total liabilities	(346,647)
	<hr/>
Total identifiable net assets at fair value	308,782
Add: Goodwill arising on acquisition	718,476
	<hr/>
Purchase consideration at fair value	1,027,258
	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

With the macro economy facing downward pressure, an oversupply of milk sources, more stringent regulation on the dairy industry and increasing competition from imported dairy products, the dairy industry in China continued to face challenges. However, according to National Bureau of Statistics data, the Consumer Price Index in relation to liquid milk and dairy products had increased year-on-year for five consecutive months from February to June 2016, indicating a gradual recovery of consumption demand for dairy products in the country. As per capita income continues to rise and living standard improves in China, consumers are not only more conscious of food safety, but also increasingly care about nutrition and health. Under the new normal of consumers seeking higher-end products, premiumization of the liquid milk product structure continues. Room temperature yogurt and chilled yogurt sales boast a growth rate faster than the industry average and product sub-categories such as premium UHT milk and room temperature probiotic lactobacillus drinks have also kept growing.

During the period, the Chinese government continued to tighten regulation on infant milk formula and commenced thorough checking on the quality and safety of imported infant milk formula. As such, low-quality enterprises and production capacities are being gradually eliminated, which is conducive to consolidation as well as the long-term healthy development of the industry. In addition, the positive impact of the full roll out of the two-child policy on milk formula demand is expected to surface gradually.

With a surplus supply of raw milk, currently it is difficult for milk product prices in the country to go up. As certain traditional product categories slow down in growth, dairy enterprises have sought to seize market share and drive volume growth through product innovation and creative marketing. As China steps into the new digital age, dairy enterprises are working hard at gearing their thinking with the Internet in mind, tailoring means and ways more innovative and interactive, more diverse yet direct to communicate with consumers in more dimensions, allowing them to better understand how consumers think and refresh consumers' perception about the quality of dairy products in China.

Business Review

Seeing both opportunities and challenges in consumers going for premium products, Mengniu has remained steadfast in its strive for quality, innovation and win-win with consumers, pushing on persistently with its two-pronged “internationalization + digitalization” development strategy aiming for quality innovation in such core areas as raw milk sourcing, management systems, accreditation standards and research and development in relation to nutrition and health. Its ultimate aim is to build an ecosystem that promises consumers both quality and nutrition. Mengniu has completed step-by-step a series of internationalization measures including its shareholder structure, strategies establishment and system set-up and has built itself into an intelligent dairy enterprise with the help of Big Data and through digitalized management, taking its work in areas such as plant construction, internal management and quality system to new levels.

With consumption demand becoming more diverse and sophisticated, Mengniu is placing more emphasis on research and development and product upgrade, and ensuring food safety by exercising quality control and tracking throughout its entire industrial chain. Staying true to the mission of “Focus on nutrition and health, deliver a drop of happiness for every moment and every day to more people”, Mengniu continued to actively promote the trend of consuming nutritious and healthy dairy products. During the period, premium UHT milk, room temperature and chilled yogurt saw satisfactory sales growth. *Milk Deluxe* continued to lead the premium market segment. *Just Yoghurt* maintained fast growth and became a main sales growth contributor. Sales of various products under the *Champion* brand also continued to grow quickly. Owing to Mengniu’s vigorous effort to expand sales channels, UHT milk gained more market share. As for milk formula business, Yashili was still in the phase of brand upgrade and channel transformation and consolidation, the effects of which are expected to manifest in a gradual manner.

During the period, Mengniu once again made it among the top 20 in the BrandZ™2016 list of the most valuable Chinese brands. In addition, in the sixth China Brand Power Index (C-BPI) ranking published by the Ministry of Industry and Information Technology of the PRC in 2016, Mengniu was the C-BPI champion in two categories – liquid milk and yogurt. In particular, its yogurt, which has won the champion for six consecutive years, was crowned the “Golden Brand”. Also, Mengniu was named an “Advanced Enterprise for the Cultivating and Management System of Light Industry Brands (輕工品牌培育管理體系先進企業)” by the China National Light Industry Council, and its ice cream, probiotic lactobacillus drinks and pure milk products also won the title of “Competitive and Advantageous Products of Light Industry Brands (輕工品牌競爭力優勢產品)”. In addition, at the Global Dairy Congress held in the United Kingdom, *Hi Milk*, Mengniu’s premium customized milk, garnered the “Best Dairy Product” and “Best Packaging of Dairy Products” awards under the World Dairy Innovation Awards. Mengniu was the only Chinese dairy enterprise that won two major awards at the event, which evidenced the high recognition of the international market for Mengniu’s relentless effort to innovate and upgrade its products.

Strategic Cooperation and Integration

– Chilled product business: Danone S.A. and its subsidiaries (“Danone Group”)

Danone Group, which owns 9.9% stake in Mengniu, is Mengniu’s second largest strategic shareholder. Inner Mongolia Mengniu Danone Dairy Co., Ltd. (“Mengniu Danone”) is a joint-equity company held 80% by Mengniu and 20% by Danone Group and has been in full operation since June 2014.

During the period, through applying digital management system and thus enhancing the integrated management over sales demand, raw material procurement and production capacity, Mengniu Danone improved matching of production and sales. On the cost control front, the Ma’anshan plant recorded less wastage and has launched an optimization project for production facility cleansing. The successful experience in improving efficiency and quality of the plant will be introduced by Mengniu Danone gradually to the other fresh milk plants. At the same time, through using PET bottles and optimizing product formula, Mengniu Danone achieved good results in terms of cost reduction.

On staff development, by utilizing the rich training resources of Danone Group supplemented by the gradual and effective execution of the well-organized training schedules, Mengniu Danone has taken care of the needs of every employee and ensured the fast development of its employees in order to effectively support the Group in achieving its business targets.

During the period, *Yoyi C* launched the innovative cross-segment Live Tea series, a perfect blend of Indian black tea/Longjing green tea, and probiotics. The Live Tea series was launched with the complement of a series of online and offline promotional activities with the Warner Bros movie “Batman v Superman: Dawn of Justice” which had a strong appeal to young consumers. *Yoyi C* has obtained patent for its proprietary “Temperature self-regulation digital system” which can help ensure the stability of probiotics in the products. *Champion* launched the Red+ yogurt series that features first in the market yogurts with red super fruit and fragrant flower flavors, such as pomegranate plus rose and cherry plus rose, which has won the heart of many female consumers. As for its basic yogurt products, Mengniu added in January 2016 the new product Nourishing+ oat and red date flavor yogurt in small bottle. Driven by product innovation, the chilled product business segment achieved sustainable sales growth during the period.

Drawing on Danone Group’s advanced international technologies and capabilities in quality management and product innovation, as well as Mengniu’s strength in distribution, Mengniu Danone will continue to lead the national chilled dairy products market.

– *Arla Foods*

With the support of Arla Foods, Mengniu has kept enhancing its research and development, production, ranch and quality management. Its operational capability and level of innovation have thus been improving and near on par with international standards. By adopting Arla Garden’s advanced ranch management system and matching it with actual situations and management experience of ranches in China, Mengniu has come up with the Mengniu Garden system that entails meticulous management of every part of the production process and the use of international measurements to define quality milk sources. As of the end of June 2016, Mengniu’s ranch management standards were more than 65% integrated with Arla Garden’s, resulting in consistent enhancement of management level.

During the period, Mengniu had invited more than a dozen of top experts from Denmark to design a systematic training program covering four major modules, namely source management, outcome review, technological management and financial management for the elites on ranches, and on-site coaching was given monthly by the experts. The combined strengths of Arla Foods and Mengniu have enabled the China-Denmark Milk Technology Cooperation Center to better apply its edges and serve as a platform that can help achieve digitalized raw milk sourcing and enhance ranch management systematically, with alert function and well-defined mechanisms built in.

Arla Foods is a major overseas research and development cooperation partner of Mengniu. It works with Mengniu in promoting innovation in products and nutrition of UHT products, high-end organic milk formula and differentiated cheese products with the aim of guiding the higher-end product consumption trend.

– *Milk formula business: Yashili International Holdings Ltd (“Yashili”; stock code: 1230)*

In December 2015, Mengniu and Yashili jointly announced the acquisition of Dumex China, which specializes in infant milk formula business, from Danone Group. The acquisition was completed on 31 May 2016 with Yashili given access to the sales channels of Dumex China, thus allowing it to expand its market in first- and second-tier cities, especially in Eastern China. Through acquiring Dumex China’s advanced production facilities and subsequent consolidation and optimization of business, Yashili will be able to enhance its production network and reduce production cost. Meanwhile, with the research capabilities of Dumex China and support from Danone Group, Yashili will gain capabilities in product development and upgrade.

Apart from the acquisition of Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. (“Oushi Mengniu”) and Dumex China, Yashili has also been active in bringing in products of the super high-end brand Arla Foods to boost its product lines. Arla’s organic *Baby & Me* products are designed to appeal to the super high-end milk formula market; *Super α -Golden* and *Ambery Golden* of Yashili, *Diamor* of Dumex and the organic *Ruipuen* of Oushi Mengniu target high-end consumers; *α -Golden*, the key product of Yashili, *Golden* of Scient and the *Beauty* series of Oushi Mengniu are mainly for mid-range to high-end consumer groups; whereas series including *Precinutri* of Dumex, *Standard* of Scient and *Oushi* of Oushi Mengniu cater to mid-range consumer groups.

The manufacturing plant of Yashili in New Zealand officially began operation in November 2015, making Yashili the only milk formula brand in China that has its own factory in New Zealand. With access to premium quality milk source and the support of the factory which upholds stringent standards, Yashili’s research and development center has developed various imported brands and series of infant milk formula, thus has enriched and strengthened its product lines for providing strong product support to Yashili for market expansion and participation in competition. In April 2016, Yashili’s *Super α -Golden*, a newly developed milk formula product imported from New Zealand, was launched and sold not only via various channels in China including maternal and child platforms and e-commerce avenues, but was also launched for sale in New Zealand, marking a crucial step in Mengniu’s “go global” roadmap.

Currently, Yashili is transforming its sales channels. Through endeavors such as taking resources integration to the depth and enhancing efficiency of the management team, it aims to become more responsive to the market. Regarding e-commerce channels, Yashili achieved satisfactory year-on-year growth and also managed to transform from a single sales platform into a multi-dimensional and consumer-oriented business platform, achieving a deeper channel penetration. In respect of the maternal and child channel, Yashili promoted high-end products such as Yashili *Super α -Golden* and Arla series

with the support of the media, brand promotion activities and effective management at directly-operated stores for fast product launch and display, which in turn has improved sales. In addition, through the sole sponsorship of “Splendid Chinese Languages (多彩中國話)”, a major TV show featuring different Chinese dialects, Yashili has increased its brand influence leveraging the variety show to accentuate its milk formula of international quality.

Affected by the generally low price and weak sales of milk formula and intensifying market competition, Yashili continues to face immense challenges in 2016. In the second half year, a series of new policies related to milk formula will be introduced, which is expected to result in the milk formula market in China consolidating even further. That, together with the full implementation of the two-child policy favorable for the industry, will fuel potential market demand for milk formula. Yashili will continue to pursue channel transformation and brand upgrade, shaping up to make sure it can grasp promising development opportunities.

– *Plant-based nutrition product business: The WhiteWave Foods Company (“WhiteWave”)*

Mengniu and WhiteWave formed a joint-equity company in April 2014 with Mengniu holding 51% equity interest and WhiteWave 49%. The company launched walnut and almond flavor beverages with plant protein in December 2014 and, in May 2016, a series of new products of various flavors hit the market including the existing two flavors being refined and a Mellow Soy Milk series. Using WhiteWave’s leading technology in the plant-based nutrition product segment, the new products agree more with the Chinese palate.

In recent years, the plant-based beverage industry in China has developed rapidly. As consumers become increasingly health and nutrition conscious, plant-based beverages, which are deemed nourishing for the body, have huge market potential in China. The joint-equity company will actively tie in with the market and channel resources of Mengniu’s core business and continue to enrich its product lines, building up its competitive edges in the plant-based nutrition product segment and giving Mengniu differentiated advantages which make it stand out in the industry.

Quality Management

Mengniu continued to strictly control the risks end-to-end in the entire industrial chain and safeguard product quality using “four carriages mechanism” – the quality and safety management system and three quality management centers for milk sources, operations and sales respectively. During the period, Mengniu established the notion of “perfect products” which it sees as a milestone in quality management development starting with product design. As a pioneer in China in expanding the application of LIMS (Laboratory Information Management System) and SAP system, Mengniu, through achieving synergistic operation of the two systems, has been able to offer intelligent and systematic quality assurance throughout the entire industrial chain, from delivery of raw milk to factories, sourcing of auxiliary materials, production processes to the point-of-sale. It is able to track information forward and backward at all quality control points and allow control of quality at every stage in the industrial chain, thus setting a new benchmark for the dairy product industry in China.

The quality and safety management system, together with the food safety management model of Danone Group, continued to enhance the food safety risk management mechanism for the entire industrial chain. It has built an innovative digitalized “Real-time Food Safety and Quality Monitoring and Control Platform” of international standard, covering fully all ranches, production plants and major sales areas overseeing at real-time product safety in every stage of the production process. And, product quality data are uploaded onto a “Food Safety Cloud” platform, realizing informatization of the entire industrial chain stretching from the ranches and factories to the markets and facilitating more transparent communication with regulatory departments as well as consumers.

To abide by the latest PRC Food Safety Law effective from 1 October 2015, Mengniu has established a food safety matrix which covers horizontally the entire industrial chain and vertically five major dimensions, namely structural integrity, standard construction, process control, assessment improvement and informatization support, to continuously improve and enhance the extensive implementation of Total Food Security Quality Management (“TFSQM”) in the entire industrial chain. Mengniu has also started constructing a “One-stop Position Management System” for offering clear, effective and specific guidance on management of quality, food safety and regulation associated risks for each work position thus ensuring food safety and full compliance of its operations with all regulatory requirements. In addition, Mengniu cooperated with third-party organizations on food safety monitoring as well as on research and exploring food safety standards with nutrition and consumers’ health in mind. In the first half of 2016, 37 national testing organizations had examined relevant milk samples from Mengniu’s various milk suppliers and the pass rate was maintained at 100%. To help cooperation partners strengthen quality and safety management, Mengniu has signed in all close to 6,000 food safety agreements with raw milk suppliers and distributors as a means to assure product quality and safety.

The milk sources quality management center has six major tasks, which are “Control of Regional Risk”, “Workshop Management of Milk Suppliers”, “Assessment of Maturity of Divisions”, “Grain to Fodder” program”, “Enhancement of Health of Dairy Cattles” and “W-W Virtual Dairy Farming”. All divisions have taken initiative to satisfy the higher national requirements by increasing sample inspection frequency and tightening the inspection criteria. Furthermore, the milk source quality management center has urged milk suppliers to standardize production and management, and milk suppliers were supervised to ensure that they adopt and strictly follow Standard Operation Procedures (“SOP”).

The operation quality management center has quantified the definition and benchmark of a perfect product, and assessed products on aspects including its content, packaging and consumer experience, the aim of which is to ensure consumers have an experience that exceeds their expectation. At the same time, it ensured the different operational stages such as formula design, packaging design, maintenance of production process and storage and delivery logistics were under complete control, helping to boost the core competitiveness of products with quality guarantee.

The sales quality management center continued to embark on the construction and management of the chilled chain infrastructure at point-of-sale end ensuring that relevant management standards are observed. Mengniu has kept enhancing product traceability that stretches from when the products leave the factory to when they arrive at different points-of-sale.

The country's first ranch food safety standard, which was jointly developed by Mengniu and AsureQuality, a New Zealand state-owned enterprise, was being applied. It aided management of ranch food safety and covered seven areas, namely legal compliance, management of suppliers, ranch design and management, management of fodder and water, health and well-being of dairy cattle, production of raw milk and the environment, and has been implemented at 119 control points.

Mengniu, in collaboration with a third party company, conducted food safety audits on the operations of its strategic cooperation partners for potential risks and loopholes at strategic ranches and promptly suggested rectification measures, with the aim of promoting concrete implementation of food safety management system by its strategic partners thus enhance food safety starting at the source. In the first half of 2016, Mengniu commenced food safety audits of a total of seven ranches of its three strategic cooperation partners Fuyuan Farming, China Modern Dairy and Shengmu High-tech. Mengniu plans to gradually expand the scope of the food safety audit for strategic ranches and drive the implementation of food safety standards at those ranches.

Management of Milk Sources

By bringing in advanced international resources and technologies, as well as employing digitalization and informatization knowhow and other new technologies, Mengniu has continued to strengthen its milk sources foundation in the aspects of deployment, structure, quality and technology, in its bid to safeguard the lifeline of the dairy industry. During the period, the percentage of Mengniu's milk sourced from ranches and scaled farms reached 100%.

Taking reference of the hundred-year of advanced experience of Arla Garden in ranch management and taking into account local conditions and situations, Mengniu has built an innovative Mengniu Garden ranch management ecosystem to help speed up the construction of Mengniu's modern milk sourcing. Integrating international ranch management criteria with the Arla Garden management system and the safety management standard of AsureQuality from New Zealand, Mengniu continued to strengthen management and control of suppliers' ranches. In addition, Mengniu has enhanced ranch classification and management standard by introducing informatized and digitalized management to ensure that Mengniu's ranches meet standard cattle rearing requirements. It does so for the purpose of enabling strategic milk supply partners to obtain certification for passing the most stringent food safety standards applicable to international ranches.

Mengniu, for the first time, adopted SOP, an advanced ranch management standard from Denmark, to fortify the foundation for establishing standardized ranches and its capability in delicacy management of technologies at the ranches, in turn enhanced its competitiveness in the domestic milk source market. Focusing on the links of the raw milk production chain, Mengniu has formulated the "Ranch SOP Technology Regulations" with special terms refined at the leadership of industry experts and technicians and by integrating actual operational situations in 10 major ranch regions.

In keen response to the government's "Grain to Fodder" policy, starting in 2016, Mengniu has pushed ahead at full force its "Grain to Fodder" project that entails the scientific use of corn silage in feeding at ranches. The coverage of silage in scaled ranches has reached 100%.

Mengniu continued to forge ahead with its “W-W Virtual Dairy Farming Project” to boost cooperation with milk suppliers and the operation standard of ranches. Adhering diligently to the benchmark of Arla Garden’s sophisticated ranch evaluation and management system, Mengniu has invited more than 10 top specialists from Denmark to help design systematic training programs for nurturing ranch talent. Participants in the program were provided on-site guidance and support monthly and the program covered four key modules, namely source management, outcome review, technology management and financial management. During the period, Mengniu started the program at over 500 virtual trial supplier ranches of various business divisions and the program had helped the trial ranches improve output per cattle as well as profitability.

With industry leading capability in ranch Big Data management, Mengniu has been again awarded the “Ranch Service Management based on Big Data in Dairy Enterprises – Modernized Outcome Innovation Prize” jointly presented by the China Enterprise Confederation (CEC), State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and the Ministry of Industry and Information Technology of the PRC (MIIT). Mengniu made yet another innovative achievement in milk source management in the industry.

Management System

In 2013, Mengniu adopted the SAP system to boost its management capabilities in six aspects: precision marketing and in-depth sales channel management; integrated business and financial management platform; a responsive synergetic system for supply, production and sales; integrated quality management and gradually refined quality tracking; scientific and rational industrial deployment, and highly effective management of procurement and logistics.

The SAP project has three phases: the first was foundation implementation, which was completed successfully in March 2015. Mengniu achieved integration of businesses along the entire supply chain, integration of financial and operational functions as well as production, supply and sales functions of the Group, enhancing the level of standardization and transparency of Mengniu’s business data. On top of improving the efficiency of internal work-related undertakings, management and decision-making, the Group now has boosted strength in data extraction and application.

The second phase involves operational refinements for roll out between 2015 and 2016. It includes four sub-projects, namely Business Intelligence (“BI”), Plant Maintenance (“PM”), Integration of Business and Finance of Sales Company (“IBFSC”) and Finance Shared Service Center (“FSSC”).

After over six months of construction, the BI marketing project was launched on 1 June 2016. The Group’s decision makers, management and executives can use the BI system analysis platform to access sales data of and decision-making support for different brands and product categories. They could thus monitor sales and expenses data timely and strengthen their point-of-sale management capability, freeing themselves from the traditional single-facet business analysis mode.

The PM project was officially launched on 30 October 2015 with pilots kicked off at a total of 15 plants in the four major regions of Helin, Jiaozuo, Tai'an and Wuhan, involving management of the life cycle of facilities for production, inspection, research and development and in central labs, effecting horizontal integration of asset, financial and material management on the SAP system. With the pilots bearing fruit and bringing benefits, the PM project shall be implemented in more factories at opportune time.

Mengniu is the first dairy enterprise in China to have a FSSC which runs on a smooth operational model. The pilot of the center went online in November 2015. With it proven successful, Mengniu started the second phase of the FSSC project in February 2016. On the base provided by the innovative SAP-SSF (Share Service Framework) technology, interconnection of all business and finance systems is achieved, providing the Group with a solid foundation for establishing shared service centers for human resources, information technology and procurement functions. The successfully implemented FSSC provides full support to financial management and it will continue to push to enhance the effectiveness of procedural improvement, the Group's management structure, intensive cost saving, technological integration, innovation and organizational change and transformation, etc.

Phase three involves coordination work and optimization which will be carried out between 2016 and 2017.

Branding Strategies

Mengniu has been active in upgrading its strategies in relation to internationalization, digitalization and staying youthful. It communicates with consumers on the emotional level on three platforms – food, sport and entertainment to help it bring to life the brand concept of “A Little Happiness Matters”. Mengniu is not only attentive to every detail when it comes to milk quality, but also cares about consumers' health and experience and that consumers are able to feel in every way the warmth the Mengniu brand brings.

Since Mengniu renewed its marketing partnership agreement with NBA China in March 2015, the two partners have strengthened cooperation. Mengniu has the right to use the NBA China logo on the packaging of its products and has launched unique milk products in China with NBA elements incorporated in the package design. During Spring Festival in 2016, Mengniu and NBA China presented the “Confession at Basketball Court” campaign, giving basketball fans the exclusive opportunity to proclaim their admiration for players at the basketball court during the NBA Regular Season, marking the beginning of a year of good fortune for basketball fans. At the same time, Mengniu gave out RMB1 billion worth of red packets coupon and a jackpot prize of a Royal Caribbean Cruise, and partnering with Didi Chuxing mounted the Spring Festival promotion themed “The Luckiest Year with Blessings, Get on Board with a Click”. These activities had brought consumers closer in heart with Mengniu as well as boosted the influence of the Mengniu brand.

To celebrate the advent of the 2016 Rio Olympics, Mengniu, a sports and healthy lifestyle trendsetter, is collaborating with Sina China on a largest of the year running event named “Excel in Rio, Run China”. The event will last between May and November comprising more than 100 races nationwide covering around 10 million people. The races have five themes “Blossom, Ocean, Forest, Morning Light and Lake” that echo with nature for delivering

the “High quality milk is definitely pure” positioning of Mengniu’s basic pure milk. At the same time, also taking advantage of the Rio Olympics, *Champion* yogurt has appointed three members of the Chinese national swimming team – Jiao Liuyang, Wang Shun and Liu Xiang – as Mengniu *Champion* Gold Ambassadors in a series of marketing events themed “Everyone is Champion, Excel in Rio”. Apart from supporting the national swimming team at the Rio Olympics, the initiative targets also to highlight *Champion* as a “great yogurt that cannot be replicated”, that it is ready to embrace challenges and strive for excellence. *Champion* has been tireless in fortifying its “Tri-Champion Standards” brand proposition, meaning having high quality probiotics, milk and ingredients in its products, that the premium brand image of *Champion* may be planted deep in the public mind.

The long-awaited Shanghai Disney Resort was officially opened in June 2016. As its official dairy product partner, Mengniu’s brands can be found at different strategic spots throughout this fabulous resort. Visitors from all over the world can enjoy its premium quality products including milk, yogurt and ice cream, as well as other special delights that Mengniu has exclusively created for Shanghai Disney Resort including *Mickey’s Ice Cream Classic*, *Minnie’s Sweet Treat* and *Donald’s Duckburg Ice*. Adding to the fun, *Future Star* has launched a joint marketing program themed “Happy Start to a Wonderful Journey” with the Resort. Its brand ambassadors actress Li Xiao Lu and her daughter Jelena Jia were among the first batch of guests at the Grand Opening and shared this joyous occasion with other consumers within the resort.

During the period, Mengniu integrated lactobacillus with tea drinks to come up with the *Yoyi C* Live Tea, a series of innovative cross-segment new products that surprised and shook the industry, claiming for itself a share of the blue ocean in the lactobacillus drinks market. *Yoyi C* and the Warner Bros movie “Batman v Superman: Dawn of Justice” mounted joint promotion, which sparked discussions about collaboration between movies and businesses. The promotion tied the vitality of heroes in with Live Tea products, with the aid of an exclusive TV commercial featuring the movie and also mainstream online media, such as Tencent, iQiyi and NetEase highlighting the brand concepts “The Arrival of Heroes, Live With New Tea” and “Tea becomes alive” for *Yoyi C*, all efforts to enhance emotional interaction between the brand and young customers.

To boost the entertainment gene in the brand, Mengniu cooperated with another movie partner in the Hollywood production “Independence Day: Resurgence”. The high quality and technology content of Mengniu products matched perfectly with the sci-fi elements of the movie and Mengniu was able to embed Mengniu Moon Milk and its auto-vending machine in the movie to impress consumers. In addition, Mengniu also worked with the Hollywood movie crew to produce a TV commercial – the side story of “Independence Day: Resurgence”. It also offered at Tmall an exclusive limited edition product with the movie as the packaging theme on the very day when the movie was released. Through online and offline promotions, Mengniu presented a youthful image of itself and boosted the value of the brand.

Mengniu in association with its “Star Partner”, the singer group Yu Quan, launched the first high-quality “Internet milk” (sold exclusively online) – *Hi Milk*. Boasting supremacy in packaging design in terms of structure, IP and details, the product garnered an array of international honors in 2016, including the “Design Award 2016” at “IF Product Design Award” dubbed the Oscar in the product design field. That was the first time a Chinese dairy

brand won the honor. *Hi Milk* also snatched two other major awards – “Best Dairy Product” and “Best Packaging of Dairy Products” – at the World Dairy Innovation Awards, which represent the prominent international recognition Mengniu enjoys for its innovative product design.

Just Yoghurt again worked with Hunan TV, leveraging the second season of the prime-time variety show “Run for Time (全員加速中)”, planting brand elements in the setting of the program for creating brand influence in folds on viewers. By sparking hot discussions on WeChat and Sina Weibo and interacting with consumers, it resonated with consumers on the brand concept of “No additives, pure and delicious taste”. *Just Yoghurt* also had its brand aura instilled into the movie “Mermaid”, and that won for it the “Best Video Content Marketing Case – Silver Award” at the “China Content Marketing Awards Ceremony Gold Award” in June 2016.

Upholding the principle of constant innovation, *Milk Deluxe* and Letv together launched a brand new corporate social responsibility marketing model – producing the grand ethnic musical “Rebirth of National Music (又見國樂)” to be staged in 10 cities in the country during the year. Using a communication matrix comprising quality online and offline resources and through recruiting experts in Chinese music, it promoted the artistic charms of Chinese music and culture to the people. The association with traditional Chinese music has enabled Mengniu to enrich the content of the *Milk Deluxe* brand, giving it unique artistic value. In complement, three new “3.6g Milk Protein/120mg Original Calcium” products in limited edition packaging designs featuring the three Chinese musical instruments – the Erhu, Ruan and Pipa – were launched for not only to nurture the body but also the mind of consumers, as well as enhance the brand’s high-end image and exclusivity. *Milk Deluxe*’s “New Height of Nutrition” product promotion during the New Year won the “Best Integrated Social Marketing Case – Gold Award” at the “China Content Marketing Awards Ceremony Gold Award”.

Internationalization and digitization will give Mengniu the drive to use diverse marketing means to continue to interact and communicate in depth with consumers, passing on to consumers its embrace of the mission of “Focus on nutrition and health, deliver a drop of happiness for every moment and every day to more people”.

Sales Channels

Mengniu continued to strengthen its sales channels with key focus on “vertical flattening, horizontal integration, function optimization and enhancement in various sales regions” and by accelerating implementation of the Route to Market (“RTM”) project, building real regional platforms and regional management centers. By increasing the number of business representatives of Mengniu and distributors to directly serve points of retail sales, the Group has strengthened its sales operation model with distributors at the core and also the direct control system of the distributors. At the same time, it also increased the proportion of direct sales of sales companies and the Central Business Units (“CBU”) to realize delicacy management of sales channels across the board.

The Wei Sales Platform (“WSP”) project adopts a closed-loop management system from objective setting to sales execution. By providing sales personnel with point-of-sale supportive information management tools, it can conduct standardized sales visit, set parameters for

management of employee attendance and guide target management, thus realizing standardized management and unified data feedback. WSP has the capability of monitoring point-of-sale information in real time, helpful for refining point-of-sale management. The Group began promoting the WSP project to sales companies and the CBUs in the first half of 2016.

Mengniu has optimized its Key Account (“KA”) management structure by enhancing the exchange and communication among the three-tier organizational structure – the headquarters-based client team, regional KA team and the distributor KA team. It has formed a strategic alliance with retailers by which limited resources would be allocated to key markets and product categories.

Mengniu used the Internet to build three-dimensional marketing channels and connect seamlessly with its marketing arm, directing brand resources onto the e-commerce platform for expanding e-commerce sales channels thus boost its marketing clout and brand power online. Currently, its products are sold on all major e-commerce platforms in China such as Tmall, JD, Yhd.com, Suning and Womai.com. During the period, Mengniu signed strategic cooperation agreements with Tmall and JD to take its quality e-commerce business deployment to the depth. Through cooperating with Tmall on data utilization and reallocation of resources, Mengniu was able to enhance its exposure in the Alibaba channel. In 2016, at the “618 Quality Carnival” in JD, Mengniu made record sales of more than RMB10 million, placing first among dairy enterprises and second in the food category on that platform. While working on modern channels, Mengniu also exerted in developing markets in third- and fourth-tier cities and has managed breakthroughs in growing traditional channels.

Mengniu has achieved substantial development in terms of sales in overseas markets. Its products are sold in Hong Kong, Macau, Mongolia and Singapore, and have also made it into Myanmar during the period, giving it an expanded overseas business footprint. In its product portfolio are UHT products which include pure milk, low-fat high calcium milk, *Milk Deluxe*, *Fruit Milk Drink*, *Just Yoghurt*; chilled products which mainly include *Yoyi C* and ice cream products which cover *Deluxe*, *Suibian* and *Mood for Green*, etc. Mengniu takes reference of the characteristics of different markets when it tailors regional and diverse promotions. Such efforts enabled it to achieve good sales performance in Hong Kong, Macau and overseas markets during the period.

Financial Review

Revenue

Benefiting from active brand promotion and marketing, the Group’s revenue for the six months ended 30 June 2016 was RMB27,257.2 million (2015: RMB25,564.4 million), representing an increase of 6.6% on a year-on-year basis. Excluding Yashili, the revenue of the Group rose by 7.0% to RMB26,104.7 million (2015: RMB24,402.9 million). The products with a greater contribution to revenue growth were *Milk Deluxe*, *Just Yoghurt* and *Mengniu Pure Milk*.

Gross Profit

Raw milk prices were further lowered and the product mix was constantly optimized. As a result, the gross profit of the Group for the six months ended 30 June 2016 increased to RMB9,181.4 million (2015: RMB8,142.8 million), while gross profit margin increased by 1.8 percentage points to 33.7% as compared with the same period last year. Excluding Yashili, the Group's gross profit was RMB8,589.6 million (2015: RMB7,573.3 million), while gross profit margin increased by 1.9 percentage points year-on-year to 32.9%.

Operating Expenses

As the Group adopted proactive channel expansion strategies and invested more heavily on branding during the period, operating expenses increased to RMB7,803.6 million (2015: RMB6,841.8 million), representing approximately 28.6% (2015: 26.8%) of the Group's revenue. Excluding Yashili, the Group's operating expenses were RMB7,052.6 million (2015: RMB6,223.1 million), representing 27.0% of the revenue excluding the contribution of Yashili (2015: 25.5%).

Selling and distribution expenses for the period increased by 15.9% to RMB6,448.9 million (2015: RMB5,565.3 million), and their percentage of the Group's revenue increased 1.9 percentage points to 23.7% (2015: 21.8%). Excluding Yashili, the selling and distribution expenses of the Group were RMB5,949.5 million (2015: RMB5,041.7 million), representing 22.8% of the revenue excluding the contribution of Yashili (2015: 20.7%).

The advertising and promotion expenses for the period increased by 23.4% to RMB2,825.7 million (2015: RMB2,290.2 million), and their percentage of the Group's revenue increased to 10.4% (2015: 9.0%). Excluding Yashili, the Group's advertising and promotion expenses increased by 26.7% to RMB2,647.2 million (2015: RMB2,089.0 million), representing 10.1% of the revenue excluding Yashili's contribution (2015: 8.6%), increasing by 1.5 percentage points year-on-year.

Administrative and other operating expenses increased by 6.1% to RMB1,354.7 million (2015: RMB1,276.5 million), and their percentage to the Group's revenue amounted to 5.0% (2015: 5.0%). Excluding Yashili, the Group's administrative and other operating expenses was RMB1,103.0 million (2015: RMB1,181.4 million), representing 4.2% of the revenue excluding Yashili's contribution (2015: 4.8%), a decrease of 0.6 percentage point year-on-year.

Profit from Operating Activities and Net Profit

As the profit attributable to associates for the current year decreased significantly to loss of RMB154.6 million from profit amounting to RMB143.3 million for the corresponding period of last year, and Yashili recorded a decrease in profit, the EBITDA of the Group has decreased by 6.9%, reaching RMB2,155.1 million (2015: RMB2,315.6 million), and EBITDA margin decreased to 7.9% (2015: 9.1%).

Profit attributable to owners of the Company decreased by 19.5% year-on-year, amounting to RMB1,077.3 million (2015: RMB1,338.7 million). Basic earnings per share was RMB0.277 (2015: RMB0.344), representing a year-on-year decrease of 19.5%. Excluding Yashili, profit

attributable to owners of the Company was RMB1,087.7 million (2015: RMB1,296.9 million), representing a decrease of 16.1% year-on-year.

Income Tax Expenses

For the six months ended 30 June 2016, the effective income tax rate of the Group was 20.9% (2015: 18.3%), increasing by 2.6 percentage points year-on-year. Excluding Yashili, the effective income tax rate of the Group was 22.1% (2015: 18.5%), increasing by 3.6 percentage points year-on-year. A major associate's contribution to the Group for the period has changed to loss from the same period last year's profit, resulting in an increase in effective income tax rate of the Group during the period.

Capital Expenditure

For the six months ended 30 June 2016, the capital expenditure ("CAPEX") of the Group was RMB2,706.5 million (2015: RMB1,439.6 million), which represents a year-on-year increase of 88.0% and included an expenditure of RMB987.6 million on the acquisition of the entire equity interest of Dumex China by Yashili. The CAPEX consisted of expenses that were spent on building new and modifying existing production facilities and related investment amounting to RMB1,482.9 million, purchasing biological assets amounting to RMB87.6 million and addition in equity investment including Dumex China amounting to RMB1,136.0 million. Excluding Yashili, the CAPEX of the Group was RMB1,667.3 million (2015: RMB1,237.8 million).

Working Capital, Financial Resources and Capital Structure

The Group's net cash inflow from operating activities for the six months ended 30 June 2016 increased to RMB2,675.3 million (2015: RMB2,107.3 million), primarily due to the significant decrease in inventory for raw materials.

For the six months ended 30 June 2016, outstanding bank loans and bonds of the Group decreased to RMB10,172.4 million (31 December 2015: RMB11,050.3 million). Excluding Yashili, the outstanding bank loans and bonds of the Group were RMB9,485.2 million (31 December 2015: RMB10,388.6 million).

Net borrowings (total amount of bank loans and bonds net of cash and bank balances) of the Group as at 30 June 2016 were RMB4,965.5 million (31 December 2015: RMB3,119.0 million). Excluding Yashili, the net borrowings of the Group were RMB6,038.9 million (2015: RMB4,938.7 million).

The Group's total equity as of 30 June 2016 was RMB26,781.3 million (31 December 2015: RMB26,615.2 million). The debt-to-equity ratio (total amount of bank loans and bonds over total equity) was 38.0% (31 December 2015: 41.5%).

Finance costs of the Group were RMB151.5 million (2015: RMB134.6 million), accounting for about 0.6% of the revenue (2015: 0.5%). Excluding Yashili, the finance costs of the Group were RMB145.3 million (2015: RMB132.2 million), accounting for 0.6% of the revenue excluding that of Yashili (2015: 0.5%), which represents a year-on-year increase of 0.1 percentage point.

Share Repurchase

The Group has confidence in its long term development. To enhance its shareholder base and value, the Group has repurchased a total of 6,116,000 ordinary shares of the Company at a total consideration of RMB58.1 million, in six batches at an average price of HK\$11.09 per ordinary share on the open market during the period.

Products

By integrating the strategic resources it has from around the world and using Big Data analysis, Mengniu is able to accurately gauge the needs of consumers and innovate in various areas such as product category, flavor, packaging, delivery channel and brand experience, etc. to build a consumer-oriented product platform. Empowered by its online and offline channels and through mounting innovative branding activities and using the social media, it has enhanced two-way communication and interaction with consumers, presenting consumers with more refined brand experience and boosting their loyalty to the Mengniu brand.

The Group's principal businesses comprise liquid milk, ice cream, milk formula and other products. Their performances during the period are outlined in the table below:

Product Category	Financial Performance	Highlights	Key Products
Liquid milk	Revenue amounted to RMB23,761.5 million (2015: RMB21,940.9 million), accounting for 87.2% of Mengniu's total revenue (2015: 85.8%)		
<i>UHT milk</i>	Revenue amounted to RMB11,513.8 million (2015: RMB10,710.4 million), accounting for 48.4% of the liquid milk segment revenue (2015: 48.8%)	<ul style="list-style-type: none"> – <i>Milk Deluxe</i> launched a limited edition featuring Chinese musical instruments – the Erhu, Ruan and Pipa – to complement the traditional Chinese music and art theme. The package designs are vibrant, yet carry a sense of ease and timelessness. Containing 3.6g of quality protein and 120mg of original calcium, <i>Milk Deluxe</i> helps improve both the physical and mental health of consumers and the limited edition added to the character of the brand. – Mengniu and the Hollywood movie “Independence Day: Resurgence” joined force and cleverly incorporated Mengniu Moon Milk into the movie, a meaningful strategic move marking the beginning of Mengniu taking its brand international. Also, a limited edition of <i>Mengniu Pure Milk</i> kicked off sales in Tmall on the day the movie was released. – XinYangDao tied in promotion with the movie “Warcraft” producing a complementary limited edition product that was available in Tmall for fans of the movie. – Mengniu worked with “Star Partners”, the singer group Yu Quan, and launched the first high-quality “Internet milk” (sold exclusively online) – <i>Hi Milk</i>, which contains more than 3.6g of protein per 100ml of milk 	<ul style="list-style-type: none"> – <i>Milk Deluxe</i> – <i>Mengniu Pure Milk</i> – <i>Prime Ranch Pure Milk</i> – <i>Future Star Kid Growth Milk</i> – <i>Arla Organic Pure Milk</i>

Product Category	Financial Performance	Highlights	Key Products
Milk beverages	Revenue amounted to RMB4,915.9 million (2015: RMB5,657.8 million), accounting for 20.7% of the liquid milk segment revenue (2015: 25.8%)	<ul style="list-style-type: none"> - <i>Go Chang</i>, a fat-free room temperature probiotics drink, was launched in January 2016. Leveraging the popularity of Super Girl, the brand boosted its exposure. Starting with product packaging to presence in the activities of the show, the brand has gradually become synonymous with youthfulness and daring to dream among young people. - <i>Suan Suan Ru</i> introduced <i>Ruciyanzhi</i>, an innovative combination of whey protein, lemon and sea salt. Whey protein can enhance vitality, sea salt replenishes body fluid, and lemon gives the product its refreshing sweet-sour taste. At the complement of the pop group TFBOYS, its members' mug shots were used on the packaging, the product had a strong appeal to young consumers. - <i>Fruit Milk Drink</i> took on a new packaging design to agree with a thematic sales promotion. Intensive publicity effort was made via such broadcast channels as TV dramas, variety shows and Internet videos to convey the "Milk and Fruit Offers What is Fun" brand attitude. - <i>Yoyi C</i> launched an innovative cross-segment product – Live Tea, which marries the exotic and unique characteristics of tea – Indian red tea and Longjing green tea – with probiotics, a combination of two very different flavors. A special edition of the product was made for the movie "Batman v Superman: Dawn of Justice", capitalizing on the vitality of the heroes in the movie to bring out the brand motto "Live Tea Helps Digestion". <i>Yoyi C</i> also introduced to the market a low sugar version of the sea salt and lemon flavor drink that contains quality sea salt from Australia and 30 billion live Bacteria C, which promises to refresh and please consumers' palate. 	<ul style="list-style-type: none"> - <i>Fruit Milk Drink</i> - <i>Suan Suan Ru</i> - <i>Yoyi C</i> - <i>Future Star Miao Miao Kid Milk</i> - <i>Go Chang</i>
Yogurt	Revenue amounted to RMB7,331.8 million (2015: RMB5,572.7 million), accounting for 30.9% of the liquid milk segment revenue (2015: 25.4%)	<ul style="list-style-type: none"> - <i>Champion</i> introduced the Red+ yogurt series, which contains BB bifidobacterium from Denmark, American pomegranates, cherries, plus roses from Yunnan and milk from exclusive farms in China. The two flavors of the Super Red Fruit Flower Yogurt series are Pomegranate & Rose and Cherry & Rose, which have won the hearts of female consumers. - <i>200g-Nourishing Oats and Red Dates flavor yogurt</i> contains concentrated red dates extract, imported oats of premium quality and live bacteria from Denmark. It has a smooth and creamy texture and is nourishing and invigorating for consumers. - <i>Xiao Jian</i> introduced the 180g <i>Ecolean Yogurt</i> made with selected probiotics from Taiwan and in China mixing with American apple juice concentrate and rich and pure ranch milk for enhancing the health of the Chinese people. 	<ul style="list-style-type: none"> - <i>Champion</i> - <i>Bio</i> - <i>Just Yoghurt</i> - <i>Future Star Kid Yogurt</i> - <i>Xiao Jian Ecolean Yogurt</i>

Product Category	Financial Performance	Highlights	Key Products
Ice Cream	Revenue amounted to RMB1,703.4 million (2015: RMB1,644.3 million), accounting for 6.2% of Mengniu's total revenue (2015: 6.4%)	<ul style="list-style-type: none"> - <i>Deluxe</i> expanded the variety of its take-home delights, adding a 3000g-pack chocolate ice cream, a well-liked flavor among consumers. To make its ice cream easier yet for snacking, <i>Deluxe</i> unveiled a vanilla flavor ice cream sandwich, made of chocolate cookies from Italy with ice cream in between to titillate consumers' taste buds. <i>Deluxe</i> also blends jam, fruit and probiotics in with ice cream to produce yogurt ice creams that are tasty as well as healthy. - <i>Mood for Green</i> released the Mung and Red Beans ice cream with mung bean mash filled with red bean sauce, a simple and natural taste for consumers. - <i>Ice+</i> in its petal shape façade released a brand new iced blueberry and lemon sorbet, made with jam of the two fruit. It also presented to consumers a sorbet made of jam of passion fruit, dubbed the "King of Juices", that is smooth, refreshing and thirst-quenching. - <i>Suibian</i> created a sweet potato ice cream looking exactly like the real thing with milky smooth sweet potato paste encased in a crunchy wafer crust. The ice cream comes in a box shaped like an oven for roasting sweet potatoes. Consumers can enjoy a familiar flavor and a brand new ice cream experience at the same time. And, Suixinguo layers jams like blueberry-orange, strawberry-pineapple, mango-peach and lemon-passion fruit to create rich flavors that excite consumers' taste buds. - Highlights of Mengniu refreshments made for Shanghai Disney Resort include eight different ice creams, including <i>Mickey's Ice Cream Classic</i>, <i>Minnie's Sweet Treat</i> and <i>Donald's Duckburg Ice</i>. These taste treats have been inspired by classic Disney cartoon characters and feature different flavor choices that promise to surprise visitors and leave a lasting impression. 	<ul style="list-style-type: none"> - <i>Deluxe</i> - <i>Mood for Green</i> - <i>Ice+</i> - <i>Suibian</i>
Milk Formula	Revenue amounted to RMB1,660.0 million (2015: RMB1,783.5 million), accounting for 6.1% of Mengniu's total revenue (2015: 7.0%)	<ul style="list-style-type: none"> - Yashili's Oushi Mengniu continued to expand its organic product offerings. In addition to the existing local organic infant milk formula <i>Ruipuen</i>, it has begun final stage preparation for development of imported organic infant milk formula to be released to the market soon. - In response to the cardiovascular and osteoporosis-related health issues of the middle-aged and the elderly, Yashili has developed the <i>Awakening Youth Energizer</i> Milk Formula with special phytosterol ester additives and <i>Strengtheners</i> Milk Formula with special milk mineral additives. - Yashili upgraded the nutritional content and product packaging of the current Youyi series milk powder to satisfy the demand of consumers for more nutritious and in packaging more contemporary. - 100% imported from New Zealand, <i>Yashili Super α-Golden Stage</i> owns the patented INFAT active energy system that promotes growth of probiotics in the intestines of babies encouraging bowel activities. The formula was also launched in New Zealand simultaneously giving babies there one more quality milk formula choice. 	<ul style="list-style-type: none"> - <i>Yashili Super α-Golden Stage</i> - <i>Arla Baby & Me</i> - <i>Oushi Mengniu Ruipuen</i> - <i>Dumex Diamor</i> - <i>Yashili Golden Ambery</i>

Product Category	Financial Performance	Highlights	Key Products
Other Products	Revenue amounted to RMB132.3 million (2015: RMB195.7 million), accounting for 0.5% of Mengniu's total revenue (2015: 0.8%)	<ul style="list-style-type: none"> - The joint-equity company set up by Mengniu and WhiteWave upgraded the flavor of the existing <i>ZhiPuMoFang</i> walnut and almond series of plant based nutritious beverage and also released a Mellow Soy Milk series more agreeable with the Chinese palate, enabled by WhiteWave's state-of-the-art technology in plant-based nutritional products. 	<ul style="list-style-type: none"> - <i>Future Star Kids Cheese Sticks</i> - <i>European Fromage Frais</i> - <i>European Fermented Milk</i> - <i>ZhiPuMoFang</i>

Production

Mengniu deploys its production capacity according to market demands and its own product strategy. As of 30 June 2016, Mengniu had 33 production bases in China and one in New Zealand, which together afford a total production capacity of 9.11 million tons (December 2015: 8.68 million tons).

Corporate Social Responsibility

To Mengniu, corporate social responsibility is the passing on of love and blessing and an integral part of its corporate strategies and daily operation and management and also its entire industrial chain. The sustainable ecosystem built by Mengniu features four areas of responsibility, namely nutrition and health, growth and all-win, green development and public well-being. The Group is committed to protecting consumers' health, promoting growth of employees and partners, environmental protection and development, and maintaining social harmony. Its aim is to use its strengths to bring happiness to the society.

The rural education program "Have a Lecture in My Hometown" on Mengniu's "Most Beautiful to Have You" charity platform, is a holistic charitable rural education system with "companion" as the central theme and entails lectures given by leading lights, support from cooperation partners in the ecosystem, tutoring and mentoring by university students and public participation. Since 2012, Mengniu has had 108 cooperation partners in the ecosystem participating in the program and 92 luminaries, including the Chinese Princess of Ballet Hou Honglan, Olympic diving champion Lao Lishi and renowned singer Chen Chusheng, who gave interesting lectures on music, sports, television and movie to children from over 600 schools in impoverished areas in 22 provinces. During the period, Olympic gymnastics champion Yang Wei, the 91th luminary joining the campaign, returned to his hometown Xiantao, Hubei, which is known as the "hometown of gymnastics in Asia", gave the children from Hujiaguai Elementary School (胡家拐小學) in Maozuizhen, Xiantao city a splendid lesson on culture and sports, and Olympic butterfly stroke swimming champion Jiao Liuyang taught the basic moves of butterfly stroke, breaststroke and freestyle swimming to children at Youling Lao Pai of the Liannan Yao Autonomous County in Guangdong province. The activity gave children in those underprivileged areas the opportunity to receive education and also helped draw attention of the society to the children.

Showing its support for the Rio Olympics, a team of volunteers of Mengniu's *Just Yoghurt*, together with Olympic champion Lao Lishi, went to Hainan Danzhou Siyuan Experimental School where they gave out nearly 37,000 packs of *Just Yoghurt* to the children there to encourage them to hold on to their dreams and study hard. Mengniu's Olympics-inspired volunteer campaign is in full swing and in the second half year children in rural villages will be able to learn from and interact with Olympic champions such as Zhao Ruirui and Yang Wei.

During the period, Mengniu continued to put its weight behind the "Red-ribbon Health Ambassador Campaign on Campuses Advocating a Beautiful Youth", contributing to the cause of AIDS prevention among university students. Activities including "Scanning Barcode for Milk" and lighting up the WeChat Avatar were organized to enhance student involvement and care about the subject, as well as their awareness about AIDS prevention.

In May 2016, Mengniu announced that it would cooperate in the next five years with QQ Alert, Greatview Aseptic Packaging and SmarTone on helping families find missing loved ones by posting information of those missing on the milk carton box of *Future Star* and *XinYangDao*, which will also be a means to publicize knowledge of preventing abduction of children. The campaign, which encompasses both online and offline efforts to find missing persons and combat abduction, hopes to appeal to the public for help to bring lost children back to their home.

Mengniu takes nurturing talent very seriously. It enhances the know-how of ranchers and staff at different levels through programs including "University of Ranchers", "Golden Key of Milk Cow" and "Talented Ranchers". During the period, "University of Ranchers" ran 10 sessions of theoretical and practical courses of different levels at 12 practicing bases and close to 1,000 ranch technicians received theoretical training. To ensure personnel are geared from the supervision and management mode to the technical service mode, the program provided on-site practical coaching on rearing, veterinary medicine, breeding and management of facilities and to date 87 participants had finished on-site practice. The "Golden Key of Milk Cow" program had more than 40 system experts and experts from Denmark to give four technical demonstration and training sessions for over 600 middle-level management personnel from ranches in Beijing, Tianjin, Inner Mongolia, Henan and Hebei, etc. In addition, in April 2016, Mengniu and the China Agricultural University co-organized a third round of advanced training that covered 10 specialized courses on subjects such as industry environment, development of the dairy industry and ranch management. The courses were attended by around a hundred ranchers in China, enabling them to enhance competitiveness. The "Talented Ranchers" program gathered together a school of 54 domestic and overseas lecturers to provide via satellite 12 training sessions covering 24 basic professional courses to around 1,100 general level ranch employees. Two sessions of compulsory courses, which cover 128 dairy industry related topics and include training on practical ranch management skills and advanced industry technologies have begun.

In terms of innovation in packaging, Mengniu has replaced the plastic handles of package boxes with ones made of environmentally-friendly non-woven fabric, while also continuing to push forward with replacing plastic with paper so as to reduce damage to the environment. The new handles are used for products in Tetra Fino Aseptic packaging and PrePack packaging. Mengniu also uses renewable paper packaging that is 100% recyclable and

reusable and Tetra Pak, Combibloc and Greatview Aseptic Packaging are among its selected suppliers. In addition, Mengniu has incorporated the concept of energy conservation into the various production stages at its factories, and it also regularly upgrades relevant equipment and technologies to achieve higher energy efficiency.

In 2016, Ms. Sun Yiping, Mengniu's Chief Executive Officer and the "Have a Lecture in My Hometown" program of the Group were awarded the "Public Welfare Development Award of Enterprise Asia" and "Socially Responsible Leader Award of Enterprise Asia" respectively by Enterprise Asia. And, Mengniu itself received the "Best Mobile Integrated Marketing Case Silver Award" at the China Online Marketing Awards Ceremony Gold Award and the "First Batch of Loving Enterprises in the National Children Food Safety Protection Movement" award jointly presented by the China Children and Teenagers' Fund, China Nutrition and Health Food Association, China Children Center and Peopleyuqing.com for its "Warm a glass of milk, warm their little hands" program.

Human Resources

As at 30 June 2016, the Group had a total of about 40,047 employees in China and Hong Kong, including the around 3,367 employees of Yashili. During the period, total staff costs (including salaries of directors and senior executives) amounted to approximately RMB2,113.9 million (2015: RMB1,871.5 million).

Mengniu based its remuneration policy on a number of considerations including its corporate values, the work position and relevant performance, market conditions and an individual's ability. Its remuneration system includes five incentive schemes, namely incentive for personal performance, group benefit sharing, group over-turnover, and group appraisal as well as the restricted shares award incentive scheme. These schemes, which tie closely together the performance of the Group and that of staff, have helped to effectively motivate staff members to achieve the key performance indicators for relevant strategic objectives of the Group, making development of the Group together with its staff a reality. At the same time, to retain and reward its key management personnel and employees with great potential therefore drive the achievement of its strategic objectives, Mengniu has launched a retention plan for key management personnel, under which a selected employee will be awarded restricted shares twice.

Mengniu adopts innovative personnel management concepts in the regular team and individual appraisals it conducts in specific departments. This has enabled the Group to review and plan future organization structure, identify and nurture talent with great potential as well as lay down succession plans for key positions, thus helping to protect the Group's structure and give it the talent required for achieving its strategic objectives and driving sustainable growth of the company in the future.

Prospects

With the macro economy still sluggish, raw milk in surplus supply, pressure from online competitions and the government pushing ahead more restrict food safety regulations, the dairy industry is facing severe challenges. At the same time, with the two-child policy in full rollout, per capita income rising and urbanization continuing in China, demand for milk products in the country will gradually recover. Mengniu will focus on its star products, pushing for innovation in product categories and structure optimization to enhance consumer confidence in domestic dairy products with high qualities. It will continue to reinforce its leadership in liquid milk products, in particular, the chilled product market segment, and strengthen the business platform of Yashili's milk formula, while also seeking to seize opportunities for cooperation and consolidation with international dairy enterprises, the goal of which is to lead the upgrade of the dairy industry in China.

Looking ahead, guided by the two-pronged strategy of “internationalization + digitalization”, Mengniu will be devoted to achieving development through quality innovation and fortifying the cooperative relationship it has with advanced international and local peer partners as well as partners outside the industry. Armed with international and advanced research and development technology and management systems, it shall work together with its partners in research and development of innovative new products more in line with international benchmarks and construct a sustainable “Mengniu win-win ecosystem”. Being innovative is what motivates Mengniu to continue to develop. Mengniu will continue to embrace the “Internet+” idea, cooperate with modern Internet enterprises in innovative and interactive ways and develop new business platforms. It will push to realize digitalization from management to operation, sales, consumer experience and servicing and set up an intelligent Big Data platform to help enhance sales growth. With consumers at heart, Mengniu will build three wellness platforms with sport, food and entertainment as respective emphasis. It will communicate with consumers using trendy, dynamic and youthful means and interact with them on all possible fronts, transparently and openly. These efforts will allow it to understand precisely consumers' interests so that it may offer more valuable service and also give consumers healthy, diverse and joyful experiences with its products.

With an international perspective, Mengniu has established its digitalized management system and monitoring and tracing system for its entire industrial chain. With these systems and the backing of digital technologies, it is able to provide consumers with quality assurance. Mengniu's digitalized “Real-time Food Safety and Quality Monitoring and Control Platform” serves its ranches, factories and key sales areas, helping to safeguard the safety of all Mengniu products.

Mengniu will firmly uphold its “consumer-oriented” core value, and lay out around its plans for digitization, to fully exploit the Internet and adopt intelligent technologies in areas from product research and development to system management and operation mode. Its aim is to create high quality dairy products with “Ingenuity, Care, Reliability” thereby help the dairy industry in China rebuild its image, as well as raise the value of the “Mengniu” brand. The Group will strive to transform into a new-era dairy enterprise with its eyes set on tapping the power of the Internet and be capable of providing consumers with nutritious and healthy products that match international standards.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code of corporate governance practices.

The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has been in compliance with all code provisions of the CG Code during the six months ended 30 June 2016.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the Company’s code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 30 June 2016,

- (1) the Company repurchased on the open market a total of 6,116,000 shares of the Company at a total consideration of RMB58.1 million, all of which were cancelled during the six months ended 30 June 2016; and
- (2) the trustee of the Restricted Share Award Scheme purchased on the open market a total of 2,094,000 shares of the Company at a total consideration of approximately RMB16.9 million.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2016.

AUDIT COMMITTEE

The Audit Committee currently comprises four independent non-executive Directors, namely Mr. Wu Kwok Keung Andrew (chairman), Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt and Mr. Zhang Xiaoya.

The Audit Committee has reviewed with the Company’s management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group’s unaudited interim financial statements for the six months ended 30 June 2016.

SCOPE OF WORK OF ERNST & YOUNG

The unaudited interim condensed consolidated financial statements of the Company and its subsidiary companies for the six months ended 30 June 2016 have been reviewed by the Company's auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the Company's 2016 Interim Report to the shareholders.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company at www.mengniu.com and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The interim report of the Company will be despatched to shareholders and available at the aforesaid websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Ms. Sun Yiping and Mr. Bai Ying. The non-executive directors of the Company are Mr. Ma Jianping, Mr. Yu Xubo, Mr. Niu Gensheng, Ms. Liu Ding, Mr. Tim Ørting Jørgensen and Mr. Filip Kegels. The independent non-executive directors of the Company are Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Zhang Xiaoya, Mr. Wu Kwok Keung Andrew and Dr. Liao Jianwen.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our shareholders and the public for their continued support, and to all staff for their hard work and commitment.

By order of the Board
China Mengniu Dairy Company Limited
Sun Yiping
Chief Executive Officer and Executive Director

Hong Kong, 24 August 2016